



The President's Daily Brief

December 12, 1974

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FOR THE PRESIDENT ONLY

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STERLING

The pound has fallen sharply in the past two days, following Saudi Arabia's decision no longer to accept sterling payments for oil. Fears that the pound would depreciate as a result of the British decision not to renew guarantees of sterling's value to official holders probably precipitated the Saudi move.

The pound has dropped nearly 0.8 percent against the dollar and reached an all-time low yesterday. Dollar sales of nearly \$500 million by the Bank of England since the report of the Saudi decision have prevented an even sharper depreciation.

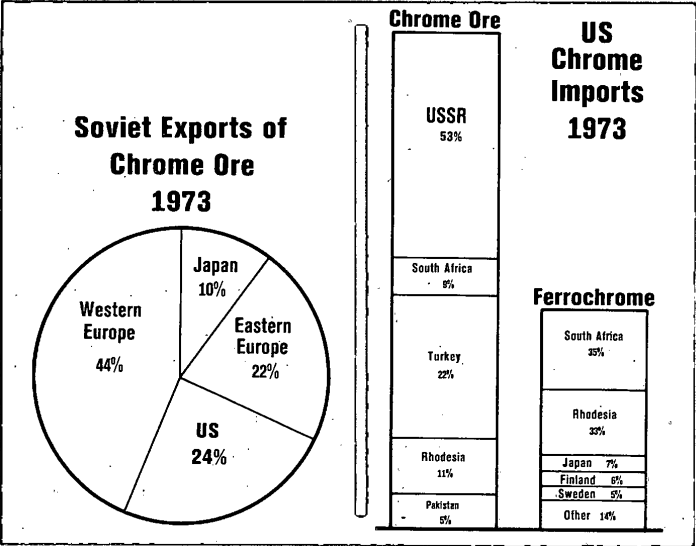
Kuwait, one of the largest sterling holders, may already have decided to follow the Saudi example.

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Some oil companies which had accumulated substantial sterling balances in anticipation of future payments have already sold nearly \$250-million worth of sterling.

OPEC countries held over \$6 billion in sterling at the end of September. It is unlikely that they would attempt to dispose of these balances quickly as this would put massive pressure on the pound. Even a decision not to increase their holdings will, however, create problems for the UK. OPEC countries increased their sterling balances by almost \$4 billion in the first nine months of this year, an amount sufficient to offset about 60 percent of the British current-account deficit. London will not find it easy to replace this financing without resorting to official borrowing.

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USSR

The Soviet Union--the largest exporter of high-grade chrome ore in the world and supplier of more than half of US imports of the ore, plans to phase out these exports by the end of 1980. Instead, the Soviets intend to begin processing the ore themselves into ferrochrome, an essential ingredient of stainless steel.

A member of the State Committee for Science and Technology has informed the US that the USSR plans to use all of its high-grade chrome ore output in domestic production of ferrochrome. The USSR is negotiating with US, West European, and Japanese firms for the construction of ferrochrome plants in the USSR, with repayment to be made in ferrochrome exports. Such plants would make the USSR the largest ferrochrome producer in the world.

Most industrialized countries, including the US, are relying increasingly on ferrochrome imports to meet the needs of their stainless steel industries. US imports of ferrochrome have more than tripled in the last three years, and about one third of US requirements now come from abroad, while imports of ore have declined by 46 percent.

The USSR, which now exports high-grade ore exclusively, will be following the lead of other major chrome ore mining nations--Rhodesia, South Africa, and Turkey--which have expanded their domestic ferrochrome industries and have reduced exports of ore.

Ferrochrome plants consume tremendous quantities of energy. This fact, combined with costly environmental controls, have made the future of the US industry uncertain. The phasing out of Soviet exports of ore may hasten the demise of the US ferrochrome industry. Emergence of the USSR as an exporter of ferrochrome presumably will provide adequate supplies of ferrochrome for US consumption, but at a much higher foreign exchange cost. Rhodesia and South Africa, alternative sources for US imports, have sufficient potential to expand their production of ferrochrome quickly.

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USSR

[redacted] the Soviets have built part of a new dam with mounding produced by an underground nuclear explosion. This kind of operation has been mentioned during recent years in the Soviet press as a possible application of nuclear explosions, but this is the first evidence of an actual attempt.

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The Soviets set off a six-kiloton device in October near a diamond mine in central Siberia.

[redacted] the explosion created part of a dam which will hold a pond for effluent from the diamond processing.

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In 1965, the Soviets dammed the Shagan River in central Asia with the throw-out from a nuclear device of more than 100 kilotons. The mounding technique used in October minimizes the release of radioactivity into the atmosphere.

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RHODESIA

Prime Minister Smith announced late yesterday that the insurgents who have been conducting terrorist operations inside Rhodesia have agreed to an immediate cease-fire. In return, Smith has agreed to release all the black nationalists, some of whom have been detained for ten years. Smith also said that a conference for negotiating a constitutional settlement would be convened soon. He implied that the nationalist leaders who met in Lusaka last week to formulate a common bargaining position have agreed to participate in the constitutional conference.

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[redacted] efforts to resolve the Rhodesia problem [redacted]

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[redacted] were begun last October by prime ministers Kaunda of Zambia and Vorster of South Africa. Last Saturday, Smith announced an impasse in the negotiations. According to Smith, his envoys in Lusaka were told that the Rhodesian nationalists would not accept a truce unless he agreed to immediate majority rule. There are indications, however, that the Rhodesian nationalists meeting in Lusaka did not actually make this demand.

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Smith may have hoped that his disclosure of an allegedly extreme demand on the part of the black nationalists would soften South African Prime Minister Vorster's earlier demand that he negotiate a compromise settlement or forfeit South African support. It now seems more likely that Vorster has pressured Smith to grant an amnesty to the Rhodesian insurgents in return for a cease-fire.

It will be difficult to make such an agreement stick, because of past feuding among the insurgents and the heightening of interracial tensions since the onset of terrorism two years ago. It may be even more difficult to reach an agreement for a transition to majority rule, unless Vorster and the three African presidents who sponsored the Lusaka talks maintain concerted pressures on Smith and the black nationalists.

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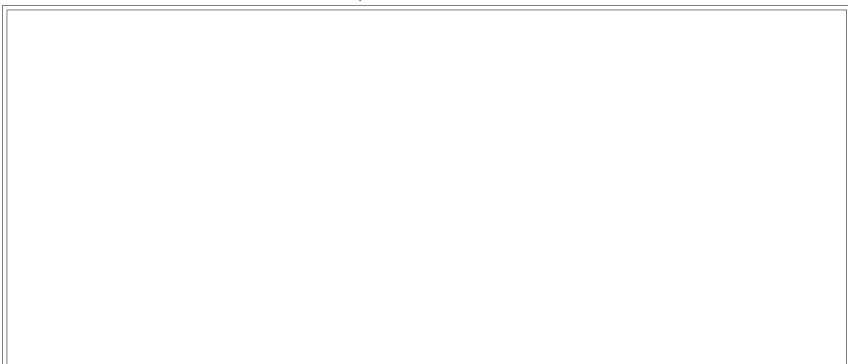
OPEC: The oil ministers of the Organization of Petroleum Exporting Countries convene today in Vienna. The session--expected to last at least two days--probably will concentrate on pricing policy. It could formalize increases of about 50 cents a barrel adopted at a recent meeting of Persian Gulf producers. An effort will probably be made to link the price of oil to inflation in general or to the prices of selected commodities. Algeria has proposed a meeting of OPEC foreign and oil ministers in Algiers on January 8 to draft an agenda for a later conference of OPEC chiefs of state.

South Vietnam: Sharp communist attacks that began late last week in the southern delta provinces have spread to the northern delta and several areas around Saigon. Most of the ground attacks have been made by communist local force units, supported by shellings and sapper attacks against bridges and highways. In one of the most severely threatened areas, elements of the Communist 5th Division have isolated several district towns in a delta province bordering Cambodia, but the government is taking steps to counter the incursion. South Vietnamese territorial forces have performed rather well in bearing the brunt of the action.

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Burma: The Burmese government has declared martial law and moved additional troops and tanks into downtown Rangoon in an effort to end student-initiated disorders that began over the government's arrangements for former UN secretary general U Thant's funeral. Large numbers of students and Buddhist monks have been arrested. The government probably can weather the immediate crisis as long as the army remains loyal. There is no apparent civilian alternative to President Ne Win and his military colleagues, and thus far there is no sign of disaffection among the troops.

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